

## Message Text

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ACTION COME-00

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 EB-08 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 LAB-04 SIL-01 OMB-01 /055 W

-----151515Z 091019 /44

R 151325Z APR 77

FM AMEMBASSY HELSINKI

TO SECSTATE WASHDC 1238

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E.O. 11652: N/A

TAGS: ETRD, FI

SUBJECT: USITC REQUEST FOR INFORMATION ON GOVERNMENT-OWNED FIRMS IN  
MARKET ECONOMIES

REF: A-1249

1. INFORMATION REQUESTED REPAIR PARA 3, ITEMS A THROUGH E,  
G, AND I, WILL BE PROVIDED WITH COVERING AIRGRAM, LARGELY IN  
FORM OF PUBLICATION, "STATE-OWNED COMPANIES - 1975" (LATEST  
AVAILABLE).

2. STATISTICAL DATA REQUESTED ITEMS F AND H NOT READILY  
AVAILABLE. USDOC HAS FULL IMPORT/EXPORT TRADE STATISTICS  
OF FINLAND, BUT ONLY SOURCE OF DATA FOR INDIVIDUAL COMPANIES  
WOULD BE FROM COMPANIES THEMSELVES.

3. BEST GENERAL SOURCE OF INFORMATION IS MINISTRY OF TRADE  
AND INDUSTRY, OFFICE OF STATE-OWNED COMPANIES, DIRECTOR  
DR. UNTO LUND, ALEKSANTERINKATU 10, SF 00170 HELSINKI 17.

4. INFORMATION REQUESTED ITEM J, PARTICULARLY J (A) NOT  
READILY AVAILABLE. FOLLOWING GENERALLY ADDRESSES POINTS  
RAISED ITEM J. STATE-OWNED COMPANIES IN FINLAND ARE  
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INCORPORATED UNDER PRIVATE COMPANY LAW, SO IN LEGAL  
TERMS, THEIR STATUS IS IDENTICAL TO NON-STATE-OWNED  
FIRMS. IN PRACTICE THERE ARE TWO TYPES OF COMPANIES,  
THE STATE MONOPOLIES, SUCH AS ALCOHOL, PETROLEUM,  
MINING, AND THE AIRLINE, AND THE COMPANIES  
WHICH PARTICIPATE IN GENERAL PRODUCTION WHERE PRIVATE  
FIRMS ARE ALSO ACTIVE, OF WHICH THERE ARE SEVEN PRINCIPALS,

WITH MANY SUBSIDIARIES. IN THE PRODUCTION AREA, STATE-OWNED FIRMS ARE VITUALLY INDISTINGUISHABLE FROM PRIVATE FIRMS, EXCEPT AS NOTED IN PARA 6 BELOW. STATE-OWNED FIRMS PARTICIPATE IN STK (EMPLOYERS FEDERATION) WITH PRIVATE FIRMS, SO PAY SAME WAGE, PENSION, OTHER BENEFITS, AS PRIVATE FIRMS. COMPANIES PAY ACCORDING TO SAME TAX STRUCTURE AND PAY DIVIDENDS TO SHAREHOLDERS, INCLUDING STATE. PRICES, MARKETING STRATEGY, PRODUCTION, DO NOT DEPEND ON STATE OWNERSHIP. IN AREA OF TECHNOLOGY, STATE-OWNED COMPANIES TEND TO BE LEADERS FOR TWO REASONS: THEY ARE CONCENTRATED IN THE MAJOR INDUSTRIAL AREAS AND THE PRIMARY MOTIVE FOR ESTABLISHMENT WAS CONCENTRATION OF CAPITAL TO PRODUCE AN INDUSTRIAL BASE. HOWEVER, IN THE MAJOR FINNISH INDUSTRIAL FIELD, WOOD PROCESSING, THE TWO STATE-OWNED COMPANIES (OF SOME 30), ARE NOT NOTICEABLE TECHNOLOGICALLY MORE ADVANCED NOR MORE INNOVATIVE THAN PRIVATE COUNTERPARTS OF COMPARABLE SIZE. IN METALLURGY FINLAND IS A TECHNOLOGICAL INNOVATOR, AND THE TWO MAJOR FIRMS ARE STATE OWNED.

5. IMPERFECT COMPETITION IN INDUSTRY IS THE NORM IN FINLAND, AND IN FACT, COMPETITION IS LARGELY BETWEEN FOREIGN FIRMS OR BETWEEN FINNISH AND FOREIGN FIRMS. IN THEIR FOREIGN OPERATIONS, FINNISH FIRMS REGULARLY COOPERATE OR FORM JOINT VENTURES, WITHOUT REGARD TO NATURE OF OWNERSHIP. THE COMPLEX INTERLOCKING OWNERSHIP PATTERN AMONG COMPANIES, AND THEIR CLOSE WORKING RELATIONSHIP WITH THE TWO MAJOR COMMERCIAL BANKS FACILITATE COORDINATION AND LEAVE COMPETITION TO THE RETAIL TRADE AND SMALL LIMITED OFFICIAL USE

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INDUSTRIAL SUPPLIERS OR AGENTS.

6. THE MAJOR BENEFITS STATE-OWNED COMPANIES DERIVE ARE FINANCIAL. THE SHARE CAPITAL OF THESE COMPANIES IS ROUTINELY EXPANDED, THROUGH A BUDGETARY APPROPRIATION. NON-STATE SHAREHOLDERS ARE PERMITTED TO BUTY NEW SHARES TO MAINTAIN THEIR EQUITY SHARE. IN THE GENERALLY SHALLOW FINNISH CAPITAL MARKET, ISSUANCE OF NEW SHARES IS NOT A READILY AVAILABLE SOURCE OF CAPITAL EXCEPT TO A FEW MAJOR PRIVATE FIRMS AND BANKS, AS WELL AS THE STATE-OWNED COMPANIES. THE STATE-OWNED COMPANIES ALSO RELY ON DEBT CAPITAL. STATE-OWNED COMPANIES CAN RECEIVE STATE GUARANTEES AS A MATTER OF ROUTINE, WHILE MAJOR PRIVATE FIRMS CAN GET BANK GUARANTEES ALMOST AS EASILY, BUT AT A COST OF SOME 1-1.5 PERCENT HIGHER INTEREST CHARGE. OTHER SUPPORT MECHANISMS, SUCH AS EXPORT FINANCING AND INFLATION INSURANCE (FOR EXPORTERS) ARE AVAILABLE TO ALL COMPANIES REGARDLESS OF OWNERSHIP.

7. EXECUTIVES OF STATE-OWNED FIRMS ARE APPOINTED BY THE SUPERVISORY COMMITTEE WHICH IS APPOINTED TO REFLECT PARLIAMENTARY STRENGTH OF POLITICAL PARTIES. EXECUTIVES OF STATE-OWNED COMPANIES NOT READILY DISTINGUISHABLE FROM THEIR PRIVATE COUNTERPART.

8. THE IMPACT OF STATE OWNERSHIP OF COMPANIES ON U.S. EXPORTS TO FINLAND DOES NOT APPEAR SIGNIFICANT. TRADE DIVERSION TO FINNISH SOURCES TENDS TO BE A FUNCTION OF NATIONAL FEELING AND INTERLOCKING OWNERSHIP, AND U.S. EXPORT TO FINLAND DO NOT NORMALLY COMPETE WITH FINNISH PRODUCTION. FINNISH TRADE RELATIONS WITH EASTERN EUROPEAN COUNTRIES DO NOT APPEAR PARTICULARLY TO AFFECT THE STATE-OWNED COMPANIES' DECISIONS. IT IS POSSIBLE THAT U.S. EXPORTS ARE AFFECTED IN THIRD MARKETS, BECAUSE STATE OWNERSHIP HAS CONTRIBUTED TO FINNISH TECHNOLOGICAL INNOVATION IN THE MINING FIELD, AND A NEW STATE-OWNED LIMITED OFFICIAL USE

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COMPANY TELEVA, HAS FORMED A JOINT VENTURE WITH THE PRIVATE FIRM NOKIA TO DEVELOP TECHNOLOGY IN THE TELE-COMMUNICATIONS FIELD. IN THIS CASE, NOKIA'S CONTRIBUTION IS PARTLY TECHNOLOGY INCLUDING LICENSES, PARTLY CAPITAL; TELEVA'S CONTRIBUTION IS CAPITAL. TELEVA WAS FOUNDED BY THE STATE IN 1976. ANOTHER NEW STATE-OWNED COMPANY WAS FORMED IN 1976 TO PRODUCE, WITH A PRIVATE FINNISH FIRM AND WITH HITACHI OF JAPAN, TELEVISION TUBES FOR EXPORT.

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TO SECSTATE WASHDC 1239

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9. EMBASSY CONSIDERS STATE-OWNED COMPANIES, AS PRESENTLY MANAGED, A FUNCTION OF TWO SPECIAL FACTORS: THE CHRONICALLY MARGINAL POSITION OF FINLAND IN THE INDUSTRIAL WORLD, DUE TO THE SMALL SIZE OF ITS DOMESTIC MARKET, AND LOCATION, AND ON THE OTHER HAND, THE POST-WAR REPARATIONS OBLIGATION WHICH PRODUCED BOTH THE HEAVY-METAL INDUSTRY AND THE STATE-OWNED LEADER IN THE INDUSTRY, VALMET. AS NOTED PARA 8, FINLAND IS CONTINUING TO USE STATE CAPITAL TO DEVELOP NEW PRODUCTIVE VENTURES, BUT HAS NOT USED THE STATE-OWNED FIRM TO EITHER DRIVE OUT PRIVATE COMPANIES OR CONTROL OR MANIPULATE THE MARKET. IT IS STILL THE CASE THAT THE STATE DEMANDS PROFITABILITY (AND EXPORTABILITY) FROM ITS COMPANIES, AND LEAVES THEM FREE TO CARRY OUT BUSINESS IN MUCH THE SAME WAY AS PRIVATE FIRMS. QUESTION OF GREATER POLITICAL INFLUENCE ON STATE COMPANIES REMAINS ITEM ON PROGRAM OF SOCIALIST PARTIES.

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## Message Attributes

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